

HARMONY COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Harmony Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2007 Election)		
Dennis Grossman	President	2009
Burton Mills	Vice President	2009
Karen Schlicher	Board Member	2007
David Hellwig	Board Member	2008
Pam Neeley	Board Member (Resigned)	2008
Steve Adams	Board Member (Appointed)	2007
Board of Education (After September 2007 Election)		
Dennis Grossman	President	2009
Burton Mills	Vice President (Resigned)	2009
Tracy Hudson	Vice President (Appointed)	2008
Tina Denly	Board Member	2010
Steve Adam	Board Member	2010
David Hellwig	Board Member	2008
School Officials		
Dr. Timothy Peterson	Superintendent	2008
Karen Seager	Business Manager/ District Secretary	2008
Iris Kerr	District Treasurer	2008
Crystal Cronk	Attorney	2008

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Harmony Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Harmony Community School District, Bonaparte, Iowa as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Harmony Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 8, 2009 on our consideration of the Harmony Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of

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inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harmony Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for four years ended June 30, 2007 (which are not presented herein). We expressed a qualified opinion for the year ended June 30, 2004 for the lack of Capital Assets. We expressed unqualified opinions for the years ended June 30, 2005 through June 30, 2007. Other supplementary information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

January 8, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Harmony Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,771,161 in fiscal 2007 to \$3,937,403 in fiscal 2008, while General Fund expenditures decreased from \$3,778,277 in fiscal 2007 to \$3,682,816 in fiscal 2008. This resulted in an increase in the District's General Fund balance from a deficit \$392,352 in fiscal 2007 to a deficit balance of \$146,647 in fiscal 2008.
- The increase in General Fund revenues was attributable to an increase in local and state source revenues during fiscal 2008. The decrease in expenditures was due primarily to decreases in expenditures in the support services functions. General Fund revenues were greater than fund expenditures thus creating the increase in overall fund balance.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Harmony Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Harmony Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Harmony Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Harmony Community School District Annual Financial Report

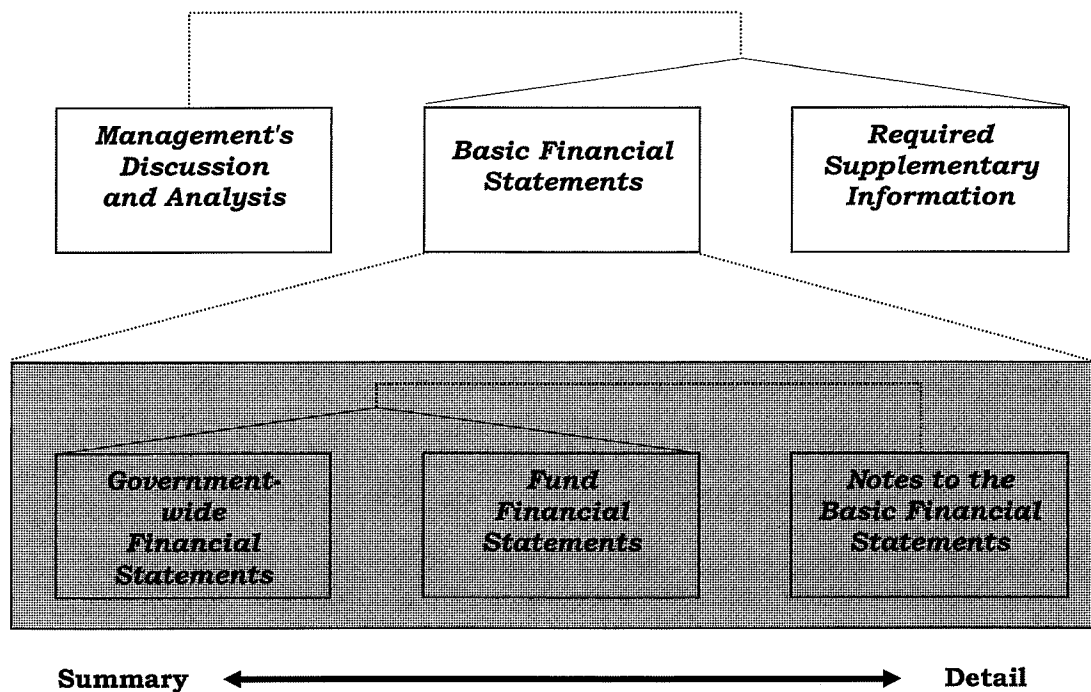


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private Purpose Trust fund.

- Private Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 3,942,879	3,540,505	28,286	42,141	3,971,165	3,582,646	10.8%
Capital assets	4,496,963	4,899,808	17,323	20,238	4,514,286	4,920,046	-8.2%
Total assets	8,439,842	8,440,313	45,609	62,379	8,485,451	8,502,692	-0.2%
Long-term obligations	2,459,920	2,613,439	0	0	2,459,920	2,613,439	-5.9%
Other liabilities	3,432,474	3,404,012	18,553	24,522	3,451,027	3,428,534	0.7%
Total liabilities	5,892,394	6,017,451	18,553	24,522	5,910,947	6,041,973	-2.2%
Net assets:							
Invested in capital assets, net of related debt	2,071,963	2,330,913	17,323	20,238	2,089,286	2,351,151	-11.1%
Restricted	856,554	740,938	0	0	856,554	740,938	15.6%
Unrestricted	(381,069)	(648,989)	9,733	17,619	(371,336)	(631,370)	41.2%
Total net assets	\$ 2,547,448	2,422,862	27,056	37,857	2,574,504	2,460,719	4.6%

The District's combined net assets increased by \$113,785 or 4.6% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$115,616 or 15.6% over the prior year. This increase is due primarily to the increase in fund balance in the Capital Project Fund.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$260,034 or 41.2%. This increase is primarily due to the increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to the year ended June 30, 2007.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues and transfers:							
Program revenues:							
Charges for services	\$ 327,807	330,817	62,454	63,621	390,261	394,438	-1.1%
Operating grants and contributions and restricted interest	528,418	489,779	92,298	88,099	620,716	577,878	7.4%
Capital grants and contributions and restricted interest	0	82,729	0	0	0	82,729	-100.0%
General revenues:							
Local tax	1,600,710	1,474,355	0	0	1,600,710	1,474,355	8.6%
Local option sales and service tax	250,551	194,148	0	0	250,551	194,148	29.1%
Unrestricted state grants	1,889,114	1,823,526	0	0	1,889,114	1,823,526	3.6%
Other	94,846	109,006	339	317	95,185	109,323	-12.9%
Transfers	0	(65,125)	0	52,270	0	(12,855)	100.0%
Total revenues	4,691,446	4,439,235	155,091	204,307	4,846,537	4,643,542	4.4%
Program expenses:							
Governmental activities:							
Instruction	2,598,217	2,540,775	0	0	2,598,217	2,540,775	2.3%
Support services	1,270,224	1,396,636	0	0	1,270,224	1,396,636	-9.1%
Non-instructional programs	0	0	165,892	188,531	165,892	188,531	-12.0%
Other expenses	698,419	415,645	0	0	698,419	415,645	68.0%
Total expenses	4,566,860	4,353,056	165,892	188,531	4,732,752	4,541,587	4.2%
Change in net assets	124,586	86,179	(10,801)	15,776	113,785	101,955	-11.6%
Net assets beginning of year	2,422,862	2,336,683	37,857	22,081	2,460,719	2,358,764	-4.3%
Net assets end of year	\$ 2,547,448	2,422,862	27,056	37,857	2,574,504	2,460,719	4.6%

In fiscal 2008, local tax, local option sales and services tax and unrestricted state grants account for 79.73% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.78% of the revenue from business-type activities.

The District's total revenues were \$4,846,537 of which \$4,691,446 was for governmental activities and \$155,091 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 4.4% increase in revenues and a 4.2% increase in expenses. Unrestricted state grants increased by \$65,588 to fund increases in expenditures. The increase in expenditures was due to increases in negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$4,691,446 and expenses were \$4,566,860.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 2,598,217	2,540,775	2.26%	1,886,687	1,860,001	1.43%
Support services	1,270,224	1,396,636	-9.05%	1,269,121	1,396,117	-9.10%
Other expenses	698,419	415,645	68.03%	554,827	193,613	186.56%
Totals	<u>\$ 4,566,860</u>	<u>4,353,056</u>	<u>4.91%</u>	<u>3,710,635</u>	<u>3,449,731</u>	<u>7.56%</u>

- The cost financed by users of the District's programs was \$327,807.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$528,418.
- The net cost of governmental activities was financed with \$1,600,710 in property tax, \$250,551 in local option sales tax, \$1,889,114 in unrestricted state grants, \$62,691 in interest income and \$32,155 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$155,091 and expenses were \$165,892. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Harmony Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund of deficit balance of \$370,688 compared to last year's ending fund balances of a deficit \$7,392. However, the primary reason for the increase was the increase in the fund balance of the Capital Projects Fund and the decrease in the deficit fund balance of the General Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increases in funding from local tax and state sources during the year resulted in an increase in revenues. The General Fund expenditures were less than the revenues received ensuring the increase in the financial position of the District.
- The Capital Projects fund balance increased during the current year, from \$544,738 to a balance of \$656,524. This was due in part because the fund had minimal expenditures during the year and half of the monies received were used as a transfer to the debt service fund for debt relief.

Proprietary Fund Highlights

- The School Nutrition Fund net assets decreased from \$37,857 at June 30, 2007 to \$27,056 at June 30, 2008, representing a decrease of 28.53%. It should be noted that part of the decrease can be attributed to the Nutrition Fund lowering the fiscal year 2007 interfund payable to the General Fund from \$24,522 to \$6,681.

BUDGETARY HIGHLIGHTS

The District's revenues were \$183,004 less than budgeted revenues, a variance of 3.6%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Initially, total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures function due to increased expenditures without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$4,514,286, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$159,600.

The original cost of the District's capital assets was \$8,324,121. Governmental funds account for \$8,248,947 with the remainder of \$75,194 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. This decrease resulted from depreciation expense taken during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 57,000	57,000	0	0	57,000	57,000	0.0%
Buildings	4,334,147	4,715,945	0	0	4,334,147	4,715,945	-8.1%
Land improvements	18,419	20,139	0	0	18,419	20,139	-8.5%
Machinery and equipment	87,397	106,724	17,323	20,238	104,720	126,962	-17.5%
Total	\$ 4,496,963	4,899,808	17,323	20,238	4,514,286	4,920,046	-8.2%

Long-Term Debt

At June 30, 2008, the District had long-term debt outstanding of \$2,459,920 in general obligation bonds and other long-term debt outstanding. This represents a 5.9% decrease from the previous year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had outstanding general obligation bonds payable of \$2,425,000 at June 30, 2008.

The District had outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$34,920 at June 30, 2008.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation bonds	\$ 2,425,000	2,560,000	-5.3%
Suburban lease	0	8,895	-100.0%
Early retirement	34,920	44,544	-21.6%
Total	<u>\$ 2,459,920</u>	<u>2,613,439</u>	<u>-5.9%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Seager, District Board Secretary/Treasurer, Harmony Community School District, 601 First Street, Harmony, Iowa, 52620.

BASIC FINANCIAL STATEMENTS

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 5)	\$ 1,480,350	0	1,480,350
Other	562,236	26,539	588,775
Receivables:			
Property tax:			
Delinquent	38,252	0	38,252
Succeeding year	1,523,228	0	1,523,228
Income surtax	149,500	0	149,500
Interfund	6,681	0	6,681
Accounts	6,834	239	7,073
Accrued ISCAP interest(Note 5)	8,390	0	8,390
Due from other governments	167,408	18	167,426
Inventories	0	1,490	1,490
Capital assets, net of accumulated depreciation(Note 6)	4,496,963	17,323	4,514,286
TOTAL ASSETS	8,439,842	45,609	8,485,451
LIABILITIES			
Interfund payable	0	6,681	6,681
Accounts payable	62,051	0	62,051
Salaries and benefits payable	336,416	11,872	348,288
Interest payable	9,783	0	9,783
ISCAP warrants payable(Note 5)	1,471,000	0	1,471,000
ISCAP accrued interest payable(Note 5)	8,230	0	8,230
ISCAP premiums payable	18,929	0	18,929
Deferred revenue:			
Succeeding year property tax	1,523,228	0	1,523,228
Other	2,837	0	2,837
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds payable	140,000	0	140,000
Early retirement payable	9,624	0	9,624
Portion due after one year:			
General obligation bonds payable	2,285,000	0	2,285,000
Early retirement payable	25,296	0	25,296
TOTAL LIABILITIES	5,892,394	18,553	5,910,947
NET ASSETS			
Invested in capital assets, net of related debt	2,071,963	17,323	2,089,286
Restricted for:			
Talented and gifted	89,619	0	89,619
Beginning teacher mentoring	3,591	0	3,591
Salary improvement program	4,992	0	4,992
Additional salary, professional development	5,706	0	5,706
Market factor	61	0	61
Professional development	16,993	0	16,993
Market factor incentives	3,247	0	3,247
Capital projects	656,524	0	656,524
Other special revenue purposes	75,821	0	75,821
Unrestricted	(381,069)	9,733	(371,336)
TOTAL NET ASSETS	\$ 2,547,448	27,056	2,574,504

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern-mental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,743,837	115,839	361,083	(1,266,915)	0	(1,266,915)
Special instruction	362,510	11,410	22,640	(328,460)	0	(328,460)
Other instruction	491,870	200,558	0	(291,312)	0	(291,312)
	<u>2,598,217</u>	<u>327,807</u>	<u>383,723</u>	<u>(1,886,687)</u>	<u>0</u>	<u>(1,886,687)</u>
Support services:						
Student services	45,895	0	0	(45,895)	0	(45,895)
Instructional staff services	88,826	0	0	(88,826)	0	(88,826)
Administration services	484,498	0	0	(484,498)	0	(484,498)
Operation and maintenance of plant services	390,535	0	0	(390,535)	0	(390,535)
Transportation services	260,470	0	1,103	(259,367)	0	(259,367)
	<u>1,270,224</u>	<u>0</u>	<u>1,103</u>	<u>(1,269,121)</u>	<u>0</u>	<u>(1,269,121)</u>
Other expenditures:						
Facilities acquisitions	311,658	0	0	(311,658)	0	(311,658)
Long-term debt interest	123,955	0	0	(123,955)	0	(123,955)
AEA flowthrough	143,592	0	143,592	0	0	0
Depreciation(unallocated)*	119,214	0	0	(119,214)	0	(119,214)
	<u>698,419</u>	<u>0</u>	<u>143,592</u>	<u>(554,827)</u>	<u>0</u>	<u>(554,827)</u>
Total governmental activities	4,566,860	327,807	528,418	(3,710,635)	0	(3,710,635)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	165,892	62,454	92,298	0	(11,140)	(11,140)
Total business-type activities	<u>165,892</u>	<u>62,454</u>	<u>92,298</u>	<u>0</u>	<u>(11,140)</u>	<u>(11,140)</u>
Total	<u>\$ 4,732,752</u>	<u>390,261</u>	<u>620,716</u>	<u>(3,710,635)</u>	<u>(11,140)</u>	<u>(3,721,775)</u>
General Revenues :						
Local tax for:						
General purposes			\$ 1,396,025	0	1,396,025	
Debt services			134,482	0	134,482	
Capital outlay			70,203	0	70,203	
Local option sales and services			250,551	0	250,551	
Unrestricted state grants			1,889,114	0	1,889,114	
Unrestricted investment earnings			62,691	339	63,030	
Other general revenues			32,155	0	32,155	
Total general revenues			<u>3,835,221</u>	<u>339</u>	<u>3,835,560</u>	
Changes in net assets			124,586	(10,801)	113,785	
Net assets beginning of year			<u>2,422,862</u>	<u>37,857</u>	<u>2,460,719</u>	
Net assets end of year			<u>\$ 2,547,448</u>	<u>27,056</u>	<u>2,574,504</u>	

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 5)	\$ 1,480,350	0	0	1,480,350
Other	120,776	464,583	(23,123)	562,236
Receivables:				
Property tax				
Delinquent	30,446	0	7,806	38,252
Succeeding year	1,182,628	0	340,600	1,523,228
Income surtax	149,500	0	0	149,500
Interfund	7,289	141,264	18,200	166,753
Accounts	6,834	0	0	6,834
Accrued ISCAP interest(Note 5)	8,390	0	0	8,390
Due from other governments	62,260	105,148	0	167,408
TOTAL ASSETS	\$ 3,048,473	710,995	343,483	4,102,951
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 18,000	0	142,072	160,072
Accounts payable	7,580	54,471	0	62,051
Salaries and benefits payable	336,416	0	0	336,416
ISCAP warrants payable(Note 5)	1,471,000	0	0	1,471,000
ISCAP accrued interest payable(Note 5)	8,230	0	0	8,230
ISCAP premiums payable	18,929	0	0	18,929
Deferred revenue:				
Succeeding year property tax	1,182,628	0	340,600	1,523,228
Income surtax	149,500	0	0	149,500
Other	2,837	0	0	2,837
Total liabilities	3,195,120	54,471	482,672	3,732,263
Fund balances:				
Reserved for:				
Talented and gifted	89,619	0	0	89,619
Beginning teacher mentoring	3,591	0	0	3,591
Salary improvement program	4,992	0	0	4,992
Additional salary, professional development	5,706	0	0	5,706
Market factor	61	0	0	61
Professional development	16,993	0	0	16,993
Market factor incentives	3,247	0	0	3,247
Unreserved:				
Undesignated	(270,856)	656,524	(139,189)	246,479
Total fund balances	(146,647)	656,524	(139,189)	370,688
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,048,473	710,995	343,483	4,102,951

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2008

Total fund balances of governmental funds (page 15)	\$ 370,688
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,496,963
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(9,783)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	149,500
Long-term liabilities, including bonds payable and early retirement payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,459,920)</u>
Net assets of governmental activities (page 13)	<u>\$ 2,547,448</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,309,925	184,708	295,494	1,790,127
Tuition	118,453	0	0	118,453
Other	92,002	0	212,405	304,407
State sources	2,289,702	65,843	302	2,355,847
Federal sources	127,321	0	0	127,321
Total revenues	3,937,403	250,551	508,201	4,696,155
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,737,007	0	0	1,737,007
Special instruction	362,510	0	0	362,510
Other instruction	290,624	0	205,686	496,310
	2,390,141	0	205,686	2,595,827
Support services:				
Student services	45,895	0	0	45,895
Instructional staff services	88,826	0	0	88,826
Administration services	436,833	0	47,937	484,770
Operation and maintenance of plant services	356,860	0	38,837	395,697
Transportation services	220,669	13,765	13,561	247,995
	1,149,083	13,765	100,335	1,263,183
Other expenditures:				
Facilities acquisitions	0	0	47,354	47,354
Long-term debt:				
Principal	0	0	143,623	143,623
Interest and fiscal charges	0	0	124,496	124,496
AEA flowthrough	143,592	0	0	143,592
	143,592	0	315,473	459,065
Total expenditures	3,682,816	13,765	621,494	4,318,075
Excess(deficiency) of revenues over(under) expenditures	254,587	236,786	(113,293)	378,080
Other financing sources(uses):				
Transfer in	0	0	133,882	133,882
Transfer out	(8,882)	(125,000)	0	(133,882)
Total other financing sources(uses)	(8,882)	(125,000)	133,882	0
Net change in fund balances	245,705	111,786	20,589	378,080
Fund balance beginning of year	(392,352)	544,738	(159,778)	(7,392)
Fund balance end of year	\$ (146,647)	656,524	(139,189)	370,688

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds (page 17) \$ 378,080

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts for capital outlays depreciation expense and loss on disposal of assets are as follows:

Capital outlays	\$ 50,840	
Depreciation expense	(156,685)	
Loss on disposal of capital assets	(297,000)	(402,845)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 143,895

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 541

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (4,709)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement		9,624
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Changes in net assets of governmental activities (page 14) \$ 124,586

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 26,539
Accounts receivable	239
Due from other governments	18
Inventories	1,490
Capital assets, net of accumulated depreciation (Note 6)	17,323
TOTAL ASSETS	<u>45,609</u>
LIABILITIES	
Interfund payable	6,681
Salaries and benefits payable	11,872
TOTAL LIABILITIES	<u>18,553</u>
NET ASSETS	
Invested in capital assets	17,323
Unrestricted	9,733
TOTAL NET ASSETS	<u>\$ 27,056</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 62,454
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	77,503
Benefits	2,337
Services	3,068
Supplies	80,021
Depreciation	2,915
Other	48
TOTAL OPERATING EXPENSES	<u>165,892</u>
OPERATING LOSS	<u>(103,438)</u>
NON-OPERATING REVENUES:	
Interest income	339
State sources	2,217
Federal sources	90,081
TOTAL NON-OPERATING REVENUES	<u>92,637</u>
Change in net assets	(10,801)
Net assets at beginning of year	<u>37,857</u>
Net assets end of year	<u>\$ 27,056</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 62,215
Cash payments to employees for services	(67,968)
Cash payments to suppliers for goods or services	(65,348)
Net cash used in operating activities	<u>(71,101)</u>
Cash flows from non-capital financing activities:	
Payments on interfund loan	(17,841)
State grants received	2,217
Federal grants received	73,848
Net cash provided by non-capital financing activities	<u>58,224</u>
Cash flows from investing activities:	
Interest on investments	<u>339</u>
Net decrease in cash and cash equivalents	(12,538)
Cash and cash equivalents at beginning of year	<u>39,077</u>
Cash and cash equivalents at end of year	<u>\$ 26,539</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (103,438)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	16,215
Depreciation	2,915
Decrease in inventories	1,574
Increase in accounts receivables	(239)
Increase in salaries and benefits payable	11,872
Net cash used in operating activities	<u>\$ (71,101)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 26,539</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received
Federal commodities valued at \$16,215.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2008

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	<u>\$ 363,619</u>
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	346,180
Unreserved	<u>17,439</u>
TOTAL NET ASSETS	<u>\$ 363,619</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2008

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ADDITIONS:	
Interest income	<u>\$ 12,770</u>
DEDUCTIONS:	
Scholarships awarded	<u>11,000</u>
Change in net assets	1,770
Net assets beginning of year	<u>361,849</u>
Net assets end of year	<u>\$ 363,619</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

(1) Summary of Significant Accounting Policies

The Harmony Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Bonaparte, Hillsboro and Farmington, Iowa, and the predominate agricultural territory in Henry, Van Buren and Lee Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Harmony Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Harmony Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Henry, Van Buren and Lee County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The District reports the following proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax

accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include machinery and equipment, are reported in the applicable business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and benefits payable - Payroll and related expenditures for contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the budgeted amount.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2008.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 125,000
Debt Service	General	8,882
Total		<u>\$ 133,882</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue, Physical Plant and Equipment Levy	General	\$ 18,000
General	Special Revenue, Physical Plant and Equipment Levy	608
Capital Projects	Special Revenue, Physical Plant and Equipment Levy	141,264
Special Revenue, Physical Plant and Equipment Levy	Debt Service	200
General	Nutrition	6,681
Total		<u>\$ 166,753</u>

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08B	1/23/2008	1/23/2009	\$ 535,714	8,032	534,000	7,955
2008-09A	6/26/2008	6/25/2009	944,636	358	937,000	275
Total			<u>\$ 1,480,350</u>	<u>8,390</u>	<u>1,471,000</u>	<u>8,230</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately

following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General fund for the year ended June 30, 2008 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2007-08A	\$ 0	500,000	500,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.455%
2007-08B	3.750%	3.451%
2008-09A	3.500%	3.469%

(6) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 76,190	0	996	75,194
Less accumulated depreciation	55,952	2,915	996	57,871
Business-type activities capital assets, net	\$ 20,238	(2,915)	0	17,323
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 57,000	0	0	57,000
Total capital assets not being depreciated	57,000	0	0	57,000
Capital assets being depreciated:				
Buildings	6,811,358	32,696	330,000	6,514,054
Land improvements	312,400	0	0	312,400
Machinery and equipment	1,347,329	18,144	0	1,365,473
Total capital assets being depreciated	8,471,087	50,840	330,000	8,191,927
Less accumulated depreciation for:				
Buildings	2,095,413	117,494	33,000	2,179,907
Land improvements	292,261	1,720	0	293,981
Machinery and equipment	1,240,605	37,471	0	1,278,076
Total accumulated depreciation	3,628,279	156,685	33,000	3,751,964
Total capital assets being depreciated, net	4,842,808	(105,845)	297,000	4,439,963
Governmental activities capital assets, net	\$ 4,899,808	(105,845)	297,000	4,496,963

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular \$ 12,014

Support services:

Operation and maintenance of plant 738

Transportation 24,719

Unallocated depreciation 37,471

Total governmental activities depreciation expense 119,214

Business-type activities:

Food services \$ 2,915

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,560,000	0	135,000	2,425,000	140,000
Suburban lease	8,895	0	8,895	0	0
Early retirement	44,544	0	9,624	34,920	9,624
Total	\$ 2,613,439	0	153,519	2,459,920	149,624

General Obligation Bonds Payable

Details of the District's June 30, 2008 General Obligation bonded debt is as follows:

Year Ending June 30,	Interest Rate	Bond issue March 24, 2003		
		Principal	Interest	Total
2009	4.63 %	\$ 140,000	117,932	257,932
2010	4.63	145,000	110,918	255,918
2011	4.63	155,000	104,211	259,211
2012	4.63	160,000	97,043	257,043
2013	4.70	165,000	89,643	254,643
2014	4.75	175,000	81,888	256,888
2015	4.88	185,000	73,575	258,575
2016	4.88	195,000	64,556	259,556
2017	4.90	200,000	55,050	255,050
2018	5.00	210,000	45,250	255,250
2019	5.00	220,000	34,750	254,750
2020	5.00	230,000	23,750	253,750
2021	5.00	245,000	12,250	257,250
Total		\$ 2,425,000	910,816	3,335,816

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed twenty years of continuous service to the District. Employees must complete an

application which is subject to approval by the Board of Education. The early retirement incentives for each eligible employee is equal to a percentage of the employee's base salary less any other additional pay and subject to a maximum of \$20,000 for certified staff and \$10,000 for non certified staff. Early retirement benefits paid during the year ended June 30, 2008, totaled \$9,624.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual salary and the District is required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$133,443, \$133,072 and \$134,543, respectively, equal to the required contributions for each year.

(9) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2008 were \$248,884.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior notice may withdraw.

Harmony Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$143,592 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Deficit Fund Balance/Net Assets

The Special Revenue, Physical Plant and Equipment Levy Fund had a deficit fund balance of \$20,039 at June 30, 2008. The Debt Service Fund had a deficit fund balance of \$216,579 at June 30, 2008. The General Fund had a deficit unreserved undesignated fund balance of \$270,856. The District also had a deficit unrestricted net assets balance in the governmental activities of \$381,069.

(12) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the budgeted amount.

(13) Contingencies

After June 30, 2008, the District is involved in various claims and lawsuits against the District that arise in the normal course of operations, which are covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time; however, management does not believe they will be material to the basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HARMONY COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2008

	Governmental	Proprietary		Budgeted Amounts		Final to
	Fund Types	Fund Type	Total	Original	Final	Actual
	Actual	Actual	Actual			Variance
Revenues:						
Local sources	\$ 2,212,987	62,793	2,275,780	2,524,496	2,524,496	(248,716)
State sources	2,355,847	2,217	2,358,064	2,283,754	2,283,754	74,310
Federal sources	127,321	90,081	217,402	226,000	226,000	(8,598)
Total revenues	4,696,155	155,091	4,851,246	5,034,250	5,034,250	(183,004)
Expenditures:						
Instruction	2,595,827	0	2,595,827	2,706,188	2,706,188	110,361
Support services	1,263,183	0	1,263,183	2,536,530	2,536,530	1,273,347
Non-instructional programs	0	165,892	165,892	200,000	200,000	34,108
Other expenditures	459,065	0	459,065	407,578	407,578	(51,487)
Total expenditures	4,318,075	165,892	4,483,967	5,850,296	5,850,296	1,366,329
Excess(Deficiency) of revenues over(under) expenditures	378,080	(10,801)	367,279	(816,046)	(816,046)	1,183,325
Other financing sources, net	0	0	0	50,000	50,000	(50,000)
Excess(Deficiency) of revenues and other financing sources over(under) expenditures	378,080	(10,801)	367,279	(766,046)	(766,046)	1,133,325
Balance beginning of year	(7,392)	37,857	30,465	275,535	275,535	(245,070)
Balance end of year	\$ 370,688	27,056	397,744	(490,511)	(490,511)	888,255

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2008, District expenditures in the other expenditures function exceeded the budgeted amount.

OTHER SUPPLEMENTARY INFORMATION

HARMONY COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Nonmajor Special Revenue Funds					Total
	Manage-	Student	Physical	Total	Debt	Other
	ment	Activity	Plant and	Special		Nonmajor
	Levy		Equipment	Revenue	Service	Governmental
			Levy	Funds		Funds
ASSETS						
Cash and pooled investments	\$ 19,200	75,821	101,771	196,792	(219,915)	(23,123)
Receivables:						
Property tax:						
Current year delinquent	2,408	0	1,862	4,270	3,536	7,806
Succeeding year property tax	100,000	0	73,207	173,207	167,393	340,600
Interfund	0	0	18,200	18,200	0	18,200
TOTAL ASSETS	\$ 121,608	75,821	195,040	392,469	(48,986)	343,483
LIABILITIES AND FUND BALANCES						
Liabilities:						
Interfund payable	\$ 0	0	141,872	141,872	200	142,072
Deferred revenue:						
Succeeding year property tax	100,000	0	73,207	173,207	167,393	340,600
Total liabilities	100,000	0	215,079	315,079	167,593	482,672
Unreserved fund balances	21,608	75,821	(20,039)	77,390	(216,579)	(139,189)
TOTAL LIABILITIES AND FUND BALANCES	\$ 121,608	75,821	195,040	392,469	(48,986)	343,483

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2008

	Nonmajor Special Revenue Funds					Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 90,809	0	70,203	161,012	134,482	295,494
Other	9,904	201,445	1,056	212,405	0	212,405
State sources	93	0	72	165	137	302
TOTAL REVENUES	100,806	201,445	71,331	373,582	134,619	508,201
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	205,686	0	205,686	0	205,686
Support services:						
Administration services	47,937	0	0	47,937	0	47,937
Operation and maintenance of plant services	32,937	0	5,900	38,837	0	38,837
Transportation services	13,561	0	0	13,561	0	13,561
Other expenditures:						
Facilities acquisitions	0	0	47,354	47,354	0	47,354
Long-term debt:						
Principal	0	0	0	0	143,623	143,623
Interest and fiscal charges	0	0	0	0	124,496	124,496
TOTAL EXPENDITURES	94,435	205,686	53,254	353,375	268,119	621,494
Excess(deficiency) of revenues over(under) expenditures	6,371	(4,241)	18,077	20,207	(133,500)	(113,293)
Other financing sources:						
Transfer in	0	0	0	0	133,882	133,882
Net change in fund balances	6,371	(4,241)	18,077	20,207	382	20,589
Fund balance beginning of year	15,237	80,062	(38,116)	57,183	(216,961)	(159,778)
Fund balance end of year	\$ 21,608	75,821	(20,039)	77,390	(216,579)	(139,189)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,
 STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Elementary	\$ 16,940	20,667	14,661	22,946
Middle School	10,147	0	10,147	0
High School	52,975	180,778	180,878	52,875
Total	<u>\$ 80,062</u>	<u>201,445</u>	<u>205,686</u>	<u>75,821</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS
 JUNE 30, 2008

	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
ASSETS			
Cash and pooled investments	\$ 82,768	280,851	363,619
LIABILITIES	0	0	0
NET ASSETS			
Reserved for scholarships	82,768	267,490	350,258
Unreserved	0	13,361	13,361
TOTAL NET ASSETS	\$ 82,768	280,851	363,619

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN PRIVATE-PURPOSE TRUST FUND,
 SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2008

	Millican Educational Memorial Fund	Reifior Scholarship Fund	Total
REVENUES			
Interest	\$ 0	12,770	12,770
EXPENDITURES			
Scholarships awarded	0	11,000	11,000
Net change in fund balance	0	1,770	1,770
Balance beginning of year	82,768	279,081	361,849
Balance end of year	\$ 82,768	280,851	363,619

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HARMONY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 1,790,127	1,658,929	1,756,668	1,466,940	1,490,203
Tuition	118,453	163,993	132,135	113,193	89,798
Other	304,407	274,874	418,550	192,263	168,316
State sources	2,355,847	2,220,051	2,031,504	2,038,771	2,103,017
Federal sources	127,321	175,983	392,614	429,329	803,061
Total	<u>\$ 4,696,155</u>	<u>4,493,830</u>	<u>4,731,471</u>	<u>4,240,496</u>	<u>4,654,395</u>
Expenditures:					
Instruction:					
Regular instruction	\$ 1,737,007	1,688,700	1,642,212	1,707,966	1,621,297
Special instruction	362,510	377,524	474,025	485,582	441,702
Other instruction	496,310	450,873	540,649	377,897	364,298
Support services:					
Student services	45,895	41,190	60,444	55,240	57,131
Instructional staff services	88,826	109,752	115,268	39,800	90,565
Administration services	484,770	565,493	518,482	499,173	474,511
Operation and maintenance					
of plant services	395,697	397,313	352,742	376,651	315,636
Transportation services	247,995	268,299	280,853	281,304	282,624
Non-instructional programs	0	0	0	80,108	59,276
Other expenditures:					
Facilities acquisitions	47,354	18,461	562,759	307,755	1,156,803
Long-term debt:					
Principal	143,623	134,189	128,683	115,702	110,000
Interest and fiscal charges	124,496	131,241	136,665	140,816	145,674
AEA flow-through	143,592	139,303	133,907	135,157	138,777
Total	<u>\$ 4,318,075</u>	<u>4,322,338</u>	<u>4,946,689</u>	<u>4,603,151</u>	<u>5,258,294</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Harmony Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Harmony Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 8, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harmony Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Harmony Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Harmony Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Harmony Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Harmony Community School District's financial statements that is more than inconsequential will not be prevented or detected by Harmony Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Harmony Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harmony Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Harmony Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Harmony Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Harmony Community School District and other parties to whom Harmony Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Harmony Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

January 8, 2009

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-08 Reliable Financial Statements - Iowa School Districts are required to record the financial records on a GAAP Basis of Accounting. The financial records are normally converted at year end, after a year of cash based records. The recognition of receivables, payables, inventory, long-term debt recognition and deprecation of capital assets are all pieces which the accounting personnel is expected to be completing. The individuals performing the accounting function needs to be well trained in all areas to be effective in completing the Certified Annual Report. The Iowa Association of School Business Officials provides training to its members as does the Department of Education and Data Teams. This training helps in providing instruction as well as promotes networking of other accounting personnel. Necessary adjustments to be made for proper recognition of receivables and payables were not being completed. Transactions such as proper recognition of transfers from other funds to pay debt as well as subsequent payment of the debt from the Debt Service Fund were not being recorded in the general ledger. Also bank reconciliations were being done, but necessary adjustments to reconcile balance sheets to the general ledger were not being completed.

Recommendation - The maintenance of reliable accounting records has and continues to be important in every District. The necessity of the numerous adjustments for the financial statements may indicate that additional training is necessary for the accounting personnel. The District should consider sending their accounting staff to end-of-year training in an effort to provide more reliable financial statements.

Response - I realize that these adjustments and balance transfers need to be made. This year was hectic with relocating our offices to the high school shortly before the audit. I was short of time to make the necessary adjustments before the time of the audit.

Conclusion - Response accepted.

- I-C-08 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches.

Response - Non-certified staff coaches have been asked to keep time sheets, but not all have complied with this request.

Conclusion - Response accepted.

- I-D-08 Checks Outstanding - We noted during our audit that the District had checks included in the Activity Fund bank reconciliations which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st. The District should submit the outstanding checks to the State Treasurer as unclaimed property.

Response - We will contact vendors/persons to determine whether the checks can be voided or reissued.

Conclusion - Response accepted.

- I-E-08 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. Per Chapter 9 of the LEA Financial Accounting Manual, "The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8)." Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

The District receives money for use of facilities when hosting district and regional events. Currently the District's practice is to receipt rents for hosting district and regional events into the Activity Fund. Chapter 297.9 of the Code of Iowa requires rent to be receipted into the General Fund. In the future, the District should receipt rent collected for facility usage into the General Fund.

Currently, donations from Target are recorded in the elementary accounts in the Student Activity Fund. Target donations are considered an undesignated donation; therefore, they should be receipted into the General Fund for use as determined by the District's Board of Directors. The designation should be noted annually in the District's board minutes.

Upon examination of the elementary accounts in the Student Activity Fund, we noted that expenditures from some of these accounts appear to be more instructional in nature. The District should review expenditures and the purpose of these accounts. If these accounts are determined to be more instructional in nature they should be closed out to the General Fund.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - In the future, we will record a portion of the hosting fees check to the General Fund as rental of facilities to comply with Chapter 297.9 of the Code of Iowa.

Target donations will be receipted to the General Fund in the future. We will comply with the further recommendation as mentioned above.

In the future, we will monitor Student Activity Fund expenditures better so that instructional supplies are not purchased from those accounts.

Conclusion - Response accepted.

I-F-08 Gate Admissions - We noted that pre-numbered tickets were being used for performances and athletic events held on District grounds, but personnel responsible for gate collections were not performing reconciliations of pre-numbered tickets to the actual gate receipts.

Recommendation - The District should adopt a Board policy addressing internal control procedures for handling cash for all performances and athletic events. The policy, at a minimum, should include the following:

- a. Change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in ticket sales/cash collecting process. The individuals responsible for ticket sales/cash collecting during the event should be instructed not to leave the change box unattended under any circumstances.
- d. Upon completion of the event, cash should be reconciled by two or more individuals to the number of pre-numbered tickets sold during the event and the amount of beginning cash in the change box.
- e. To reconcile, the next unsold ticket minus the beginning ticket number determines the actual number of tickets sold. The number of tickets sold times the price per ticket equals total sales. Total sales compared to total collections should reconcile. Variances, if any, should be small.
- f. A reconciliation sheet should be completed and signed off on by all individuals responsible for counting and reconciling cash.
- g. The change box should be turned into the Activity Director or designee responsible for the accounting function at the event.
- h. The Activity Director or designee should be required to either take to the night deposit

at the bank or lock the event proceeds in the District's vault until a deposit can be made the following business day.

- i. A pre-numbered receipt should be written by an individual in the Business Office the next day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically test or review the gate admissions process to ensure that the adopted procedures are being followed properly.
- k. Segregation of duties should be maintained as much as possible throughout the gate admissions process.

Response - We will adopt a board policy using the guidelines supplied by the auditors that addresses internal control procedures for handling cash for all performances and athletic events.

Conclusion - Response accepted.

I-G-08 School Accounting Software Integration - We noted during our audit that the Special Revenue, Student Activity Fund accounts were not integrated with the general ledger accounting system. The District may maintain subsidiary records for student activities, but all official records of the Student Activity Fund shall be maintained on the District's Uniform Financial Accounting system. If subsidiary records are maintained, these records must be reconciled to the official records monthly.

Recommendation - The District should contact the DataTeam software support and integrate the accounting for individual student activity accounts. Due to the certified annual report upload requirements, the District should maintain all accounting records for the District on one accounting system.

Response - All official records of the Student Activity Fund shall be integrated and maintained on the District's Uniform Financial Accounting system.

Conclusion - Response accepted.

I-H-08 Timely Deposits - We noted during our audit that deposits for the Student Activity Fund were prepared but may not be taken to the bank for deposit until several days later.

Recommendation - All receipts should be deposited when received. The District should review procedures to ensure that the deposits are made timely.

Response - Activity Fund deposits will be taken to the bank in a more timely manner in the future.

Conclusion - Response accepted.

I-I-08 Interfund Loans - We noted during our audit that the District has interfund payables/receivables which were on the balance sheets in the prior year and still on the current year balance sheets.

Recommendation - The District should repay the interfund loans. Money borrowed on a short term basis from a fund should be repaid before the year end.

Response - The District will repay the interfund loans. Money borrowed on a short term basis from a fund will be repaid before the year's end.

Conclusion - Response accepted.

I-J-08 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - The District is working to be more careful with the coding of bills. In regards to specific grants or projects the District is striving towards having accountability by matching revenues with expenditures.

Conclusion - Response accepted.

HARMONY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting

- II-A-08 Certified Budget - District expenditures for the year ended June 30, 2008 exceeded the amounts budgeted in the other expenditures function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - In the future we will amend the budget when it is necessary.

Conclusion - Response accepted.

- II-B-08 Questionable Disbursements - We noted during our audit that the District wrote checks from the Student Activity Fund that were subsequently cashed to buy gift cards to give to students as incentive prizes for magazine sales. Sales incentives do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - The practice of purchasing gift cards as incentive prizes has been discontinued.

Conclusion - Response accepted.

- II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-08 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Teresa Losey, Teacher	Mowing	\$873

In accordance with Attorney's General Opinion dated July 2, 1990, the above transactions with the employee of the District do not appear to represent a conflict of interest.

- II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - The board minutes are e-mailed to the newspaper the day after the meeting on a regular basis. I have no control over when the minutes are actually published in the newspaper.

Conclusion - Response accepted.

II-G-08 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students reported on Line 1 resident students was overstated by 1.0 students. The number of students reported on Line 2 open enrolled out was overstated by 1.0 students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We have contacted the Department of Education and the Department of Management to resolve the situation.

Conclusion - Response accepted.

II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-08 Financial Condition - The District had deficit unreserved fund balances of \$20,039 in the Special Revenue, Physical Plant and Equipment Levy Fund. The District had deficit unreserved fund balances of \$216,579 in the Debt Service Fund. The District had a deficit undesignated unreserved fund balance of \$270,856 in the General Fund. The District also had deficit net assets in the governmental activities of \$381,069.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - We will monitor these funds and investigate available options to eliminate these deficits.

Conclusion - Response accepted.